

**Comment on Edward P. Lazear: Teacher incentives**

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The paper uses theory of compensation to analyze the effects of different wage setting schemes on teachers' incentives. It also discusses potential sorting effects or the effects of the wage-setting scheme on the quality of teachers. The paper discusses two types of schemes, one based on input factors such as formal training and experience, which is a common way to set wages in Sweden. The second scheme is based on output measures, a scheme that we can see in many industries but rarely in professions for college graduates. The paper focuses on the latter scheme, presents some strong arguments in favor of it and concludes that an output based scheme might be applied to wages for teachers. This is an interesting idea and it deserves attention especially from those who work with issues related to wage formation in practice.

An output based scheme can work only if it is possible to measure output of production. For teachers, student test scores are an obvious candidate and this is also the measure put forward in this paper. The argument in favor of test scores comes from results based on data from the United States, showing that test scores are important determinants of students' future performance on the labor market, traditionally measured by wages. Since Sweden is mentioned in other parts of the paper, it might be interesting to introduce it into the discussion on test scores as well. The reason is that there are some Swedish results on the relationship between test scores and wages that go in a somewhat different direction than those for the United States. Kjellström (1999) uses Swedish data to investigate, among other things, the relationship between achievement test scores and wages. The tests were conducted when the individuals were 12 or 13 years of age and wages were measured when they were 40 years old. He finds a significant effect of test scores, but only of test scores in mathematics. There are no effects of reading, writing or English. However, these results were obtained from models also including level of education,

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and since test scores correlate with education, the wage effects of test scores are probably lower than they would be if education was not included. Even so, the general wage effects of test scores might be driven by effects of one or a few subjects. If this is true, then it is possible that test scores in general do not predict outcomes on the labor market. They can still be a good measure of the outcome of education, but if the aim is to find measures that predict outcomes on the labor market, then it is possible that one has to consider some additional measures.

There are various problems with the use of test scores to measure teacher performance. A problem not discussed in the paper is that there might be a relationship between students' family background and test scores. Students with parents who have a college degree might perform better in school than students with parents who have lower degrees. Consequently, one has to separate between the effects on test scores of teachers' performance and student family background. In practice, it might be difficult to collect data on student parental background and adjust for it at the time wages are set.

In Sweden, students who fail their exams in compulsory school are allowed to proceed to high school, and students who fail in high school can proceed to university. Moreover, grades are not introduced until late in compulsory school. At the moment, Swedish educational policy seems not to favor the idea of measuring student performance, and it is probably difficult to introduce a system where student performance is measured on a regular basis. Furthermore, many teachers may have chosen the profession to get stable and predictable wages, and therefore do not like the idea of student test scores being a component affecting their wages. But at the same time, wage formation for teachers has become very decentralized and wages are often set in negotiations between the individual teacher and the head master. In such a system, teachers who can show that they are good teachers will probably receive higher wages than other teachers. If there are measures of educational outcomes that can be linked to individual teachers, good teachers would probably accept the introduction of such measures. Obviously, there is room for outcome measures in the current wage formation system. Therefore, it would be interesting if some of the ideas of this paper could reach others than the academic economists and inspire a general discussion about which factors should affect wages among teachers.

## References

- Kjellström, C. (1999), Essays on investment in human capital, Dissertation Series No. 36, Swedish Institute for Social Research, Stockholm University.